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C O N F I D E N T I A L SECTION 01 OF 04 TAIPEI 003778

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TAGS: [PGOV](#) [PREL](#) [MARR](#) [TW](#)

SUBJECT: TAIWAN'S DEFENSE SPECIAL BUDGET: MOVEMENT EVERY WHICH WAY BUT FORWARD

REF: A. TAIPEI 3551

[B](#). TAIPEI 3284

Classified By: AIT A/Director David J. Keegan, Reason(s): 1.4 (B/D)

[1](#)1. (C) Summary. Taipei's decision to shift PAC-III missiles from the Defense Procurement Special Budget into the regular defense budget was intended to enhance prospects for legislative passage of both the Patriots and the reduced Special Budget package of P-3C's and submarines. This appeared a logical political decision, given opposition "Pan-Blue" parties' criticism of the Special Budget process and urging an enhanced regular defense budget. Logical though it may have been, the revised funding package quickly ran into the brick wall of Taiwan politics. After weeks of signaling greater willingness to consider the weapons triad in its new configuration, Pan-Blue parties KMT and PFP have backpedaled furiously over the past few days, to the point that the revised Defense Special budget appears as gridlocked as ever, and now even the regular defense budget with its new PAC-III addition may be in trouble. Perhaps more troubling, expanded defense procurement is beginning to be identified with defending Taiwan independence and opposing cross-Straits reconciliation. End Summary.

Shifting Patriots into the Regular Budget

[1](#)2. (C) Taipei's decision to shift PAC-III's out of the Defense Procurement Special Budget into the regular defense budget was intended, MND officials tell AIT, to enhance prospects for Legislative Yuan (LY) passage of all three weapons systems. Presidential Senior Advisor Liu Shih-chung told AIT that President Chen personally made the decision to break up the Defense Special Budget and shift the PAC-III's (Ref A). Ministry of National Defense (MND) Vice Minister Michael Tsai explained to AIT that this decision responded directly to Pan-Blue criticisms that (1) the NTD 480 billion (USD 15 billion) Special Budget was "excessive," (2) that some or all of the Special Budget weapons systems should be funded through the regular budget, and (3) that the regular defense budget should be beefed up for long-term Taiwan security.

[1](#)3. (C) These changes were a direct response to demands by Pan-Blue parties. Some of the more defense-savvy Pan-Blue legislators, for example, had publicly stated that missile defense should be one of Taiwan's top defense priorities. The government's decision to shift the PAC-IIIs to the regular budget was intended, MND officials tell AIT, to prioritize Patriot missiles over P-3C aircraft and diesel electric submarines. The changes also respond to Pan-Blue legislators' public calls for enhancing the regular defense budget, insisting that large weapons systems not be funded through what they called the fiscally irresponsible Special Budget mechanism.

[1](#)4. (C) Initial public response to Taiwan Premier and Executive Yuan (EY) President Frank Hsieh's announcement last month of the Special Budget revision was generally positive. KMT legislators spoke approvingly of the move and indicated or implied support for the revised Special Budget and the PAC-III shift. As recently as September 6, in fact, KMT Chairman Ma Ying-jeou and LY Speaker Wang Jin-pyng publicly endorsed moving the Special Budget out of the Procedure Committee, where it has been gridlocked for a full year, into the LY Defense Committee for discussion and debate. People First Party (PFP) legislators were also generally positive, though qualifying their statements with the caveat that the Party would have to carefully review the final EY budget proposal after its submission before deciding the official PFP position. This was apparently a play for time in the absence of PFP Chairman James Soong, an outspoken Special Budget critic, who was on one of his long visits to the U.S. Raytheon representatives in Taipei (please protect) were also upbeat about the EY announcement decision to revise the Special Budget when they met with AIT two weeks ago, explaining that they saw the shift as a positive happening for Patriot, and potentially also for the subs and P-3Cs.⁸

The Taiwan Three-Step -- One Step Forward, Two Back

15. (C) The EY has already submitted the revised defense budget and Defense Special Budget to the LY, and consideration of the regular budget will begin on September 13, the first day of the new LY session. Any expectation that there has been a fundamental change in the Special Budget situation, however, was quickly dispelled by the first Procedural Committee meeting on September 6, which once again -- the 27th time -- rejected the now two-item (P-3Cs and submarines) Defense Special Budget (along with rejecting three other bills).

KMT Backpedaling

16. (U) On September 6, Ma and Wang met for an hour, after which they publicly endorsed moving the Special Budget out of the Procedure Committee, where it has been gridlocked for a full year, into the LY Defense Committee for discussion and debate. The next day, however, Wang took a big step backward, telling the press that he and Chairman Ma had agreed the day before that, before the Kuomintang Party (KMT) could support acquisition of PAC-III,s, the Chen government would have to resolve the issue of the March 2004 referendum which had rejected purchase of PAC-III,s (see Ref B for a detailed explanation of the debate over the referendum). KMT efforts to use the highly controversial March 2004 referendum against the PAC-III missiles threatens to block the regular defense budget, which now houses the PAC-III missiles. (Comment. Neither Blue nor Green sides have yet offered any clear prescription for how the DPP Government might be able to overcome the KMT objections. End Comment.)

PAC-III's in the LY

17. (C) LY Rules Office Secretary Wang Yuan-sen told AIT that the LY Procedure Committee "traditionally does not boycott a regular fiscal budget," since budgets involve basic items such as salaries and government operations. Legislators, moreover, can only "propose" changes "in committee," the LY Defense Committee, in this case. The final decision on changes and passage is made by consensus in inter-party conference or, failing that, by a plenary LY session. While LY rules do not allow legislators to add or delete budget items, the LY can decide to change the amount proposed. PAC-III missiles, Wang noted, would almost certainly trigger strong debate in conference, forcing a full floor debate and vote.

Special Budget Limbo

18. (C) Meanwhile, the current Defense Special Budget (now just P-3C,s and submarines) remains in deep limbo. With the September 6 Procedural Committee rejection, the real test will likely come at the first regular Procedural Committee meeting next Tuesday, September 13. While many Pan-Blue legislators, including Speaker Wang, went on record stating they will now vote &yes8 in the Procedure Committee, this was a commitment only to allow the Special Budget to be discussed in the LY Defense Committee. Speaker Wang restricted this support even further on September 7, telling the press that he is concerned not with whether the Special Budget passes, but whether the LY formally reviews the bill so that the LY cannot be criticized for ignoring its responsibility to review major bills. Thus, this slight concession to the Special Budget could be largely pro forma and more for avoiding political blame than supporting procurement of the two weapons systems.

19. (C) Even this minimal commitment is now in question, since PFP Chairman James Soong adamantly stated September 7 his opposition to any Defense Special Budget just before his highly publicized meeting with KMT Chairman Ma to discuss defense procurement. This almost certainly kills any chance for an inter-party consensus in support of the Special Budget being passed by the Procedural Committee, approved by the Defense Committee, and finally approved by the full LY during the fall LY session (see Ref A).

Clinching KMT Opposition

110. (C) On September 8, KMT Policy Committee Deputy Director and LY member Ting Shou-chung told AIT that the KMT sees the triad of weapons systems as "useless," because they will be delivered too late to be of use against the PRC's constantly improving weapons, and as entirely too expensive. Rather, he argued, Taiwan should focus its defense budget on upgrading its F-16s to match PRC SU-30s, and on developing offensive missile capability to deter the PRC. A Taiwan counterstrike capability to hit deep in PRC territory, he said, would increase the cost of, and make the PRC pause before initiating, military action against Taiwan. Unable to afford to purchase enough defensive weapons to keep pace with China,s military expansion, he continued, Taiwan's best hope

is to develop an offensive missile capability to deter PRC attack.

11. (C) Ting dismissed the possibility that pointing missiles at Mainland China might increase cross-Strait tensions and undermine Chairman Ma Ying-jeou's stated priority of lowering tensions. Rather, he argued, Taiwan (read: KMT) would be able to maintain stability by continuing its program of cross-Strait economic, political, and cultural exchanges. Later the same afternoon, Ting told a press conference that rather than buying "unreliable anti-missile missiles," Taiwan should allocate more funds to upgrade F-16s and to develop cruise missiles to counter the PRC military threat. (Comment: The fact that Ting announced his ideas at a KMT Policy Committee press conference suggests his proposals have been vetted with Party leaders, despite the obvious contradictions with Ma's peace priorities. To what extent Ma was one of those party leaders is unclear. Despite his twenty-year friendship with Ma and overlapping with Ma at Harvard, Ting did not publicly support of Ma for Chairman race and Ma, in turn, did not include Ting in his nominations for the KMT Central Standing Committee. End Comment.)

Comment: Politics, Ideology and Defense Procurement

12. (C) The two sides have been mired for the past year in a zero-sum political duel. Both sides appear to be coming to agreement in support of a counterstrike capability, despite our clear and repeated objections. Beyond that, each has insisted that the other side is to blame for the lack of movement on defense procurement. The growing Pan-Blue insistence that President Chen had created a constitutional impediment to missile defense with the March 20, 2004 referendum is the latest round of this duel.

13. (C) The Chen government continues to lobby the opposition Pan-Blue, but it has never put the full efforts of the government behind the bill. Last week, Presidential Deputy Secretary General James Huang handed the Deputy Director a five-page list of President Chen's speeches in which, Huang said, the President had lobbied for the Defense Special Budget. In most of these speeches, support of defense procurement was subsidiary to other agendas. Few if any have sought to persuade the Taiwan public of the importance of the budget or the importance the President attaches to it. The one thing that is missing from the list is any examples of the President lobbying the LY opposition.

14. (C) Over the last few weeks, however, a new trend has emerged. The political clash between Green and Blue over defense procurement has begun shaping into an ideological confrontation. President Lee Teng-hui and other Taiwan independence advocates have begun arguing that the Special Budget is part of advancing Taiwan independence. Ma Ying-jeou has countered that expanded defense procurement will make cross-Strait reconciliation more difficult and will be rendered unnecessary as Pan-Blue reconciliation efforts take hold. It is possible that both sides are establishing these ideological positions in order to strengthen support in the island-wide series of local elections in December. However, identifying defense with such deeply partisan and ideologically driven agendas may make it impossible for either side to compromise in support of any defense improvements at all.

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